

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58028

CITY OF WALLA WALLA

Walla Walla County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: February 14, 1997

TABLE OF CONTENTS

	Page
Background	B-1
Management Section	
<hr/>	
Independent Auditor's Report On Compliance With State Laws And Regulations . .	M-1
Schedule Of Findings:	
1. Public Funds Were Misappropriated And Accounting Records Were Falsified In The Municipal Court	M-2
Status Of Prior Findings	M-5
Financial Section	
<hr/>	
Independent Auditor's Report On Financial Statements And Additional Information	F-1
General-Purpose Financial Statements:	
Combined Balance Sheet) All Fund Types And Account Groups - 1995	F-2
Combined Statement Of Revenues, Expenditures, And Changes In Fund Balances) All Governmental Fund Types And Similar Trust Funds - 1995	F-4
Combined Statement Of Revenues, Expenditures, And Changes In Fund Balances) Budget And Actual) General And Special Revenue Fund Types - 1995	F-5
Combined Statement Of Revenues, Expenses, And Changes In Fund Equity) All Proprietary Fund And Fiduciary Fund Types - 1995	F-6
Combined Statement Of Cash Flows) All Proprietary Fund And Fiduciary Fund Types - 1995	F-7
Notes To Financial Statements	F-8
Additional Information:	
Schedule Of State Financial Assistance - 1995	F-31
Schedule Of Federal Financial Assistance - 1995	F-32
Notes To Schedule Of Financial Assistance	F-33
Addendum	
<hr/>	
Directory Of Officials	A-1

CITY OF WALLA WALLA
Walla Walla County, Washington
January 1, 1995 Through December 31, 1995

Background

Our audit report reflects significant improvements made by the City of Walla Walla over the past two years in correcting deficiencies that were noted in prior year audits. The audits for the previous two years contained eight findings citing various problems. Since then, the City of Walla Walla has corrected seven of the findings, including the deficiencies noted in the local improvement district accounts receivable. The remaining unresolved item is in the process of being corrected. We wish to commend the management of the City of Walla Walla for their commitment to use our audit constructively and to make improvements in a timely fashion.

CITY OF WALLA WALLA
Walla Walla County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With State
Laws And Regulations**

City Council
City of Walla Walla
Walla Walla, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of the City of Walla Walla, Walla Walla County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated September 26, 1996.

We also performed tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office.

Compliance with these requirements is the responsibility of the city's management. Our responsibility is to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an overall opinion on compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests indicated that, with respect to the items tested, the city complied, in all material respects, with the applicable laws and regulations referred to in the preceding paragraphs. However, we noted instances of noncompliance of regulatory requirements immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management, and the city council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

September 26, 1996

CITY OF WALLA WALLA
Walla Walla County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

The following finding is a direct result of conditions that were noted in our 1993 and 1994 audit reports. As we have recommended in our previous two audit reports, we strongly recommend the Municipal Court terminate processing on the Lawpak system and transfer all accounts to their DISCIS system. Due to the internal control weaknesses noted in our previous audit findings, and specifically, the weaknesses created by the use of two systems, the risk remains **high** that continued use of the Lawpak system could result in further fraud and/or irregularities.

1. Public Funds Were Misappropriated And Accounting Records Were Falsified In The Municipal Court

Our audit of the financial records of the Municipal Court revealed that at least \$995 in public funds was misappropriated by one or more court employees during the period October 1, 1995, through August 31, 1996. Accounting records were falsified in an attempt to conceal these losses. There were no federal funds involved in this case. These funds were misappropriated as described below.

- a. Cash receipts recorded in the DISCIS account system for October 25, 1995, were never deposited in the bank. The deposit included \$170 in currency and a \$25 money order. The currency from this missing deposit was simply taken; however, an unknown court employee used a check for cash substitution scheme to obtain the funds from the money order by including it in a subsequent deposit in the Lawpak accounting system. DISCIS is the statewide court accounting software recommended by the administrator of the courts. Lawpak is a locally purchased software used jointly by the police for tracking citations and by the court for municipal court accounting needs.
- b. An unknown court employee used a check for cash substitution scheme to misappropriate cash receipts totaling \$300 on November 4, 1995. Two recorded cash receipt transactions were manipulated. First, a \$588 transaction from a collection agency payment was incorrectly receipted in a reduced amount of \$288. To offset this overage condition, \$300 in currency from an unrelated bail transaction was then misappropriated.
- c. An unknown individual took \$500 in currency from a bail transaction which was delivered to the court on July 19, 1996. The original funds from this transaction were inadvertently overlooked during the deposit process and stored in an unsecured location. After a subsequent review determined that the funds were missing, a court employee issued a personal check to reimburse the court for this loss of funds. This check was then deposited on August 18, 1996.

RCW 42.20.070 states in part:

Every public officer, and every other person receiving money on behalf or for or on account of the people . . . of any county, city . . . who:

- (1) Shall appropriate to his own use or the use of any person not entitled thereto, without authority of law, any money so received by him as such officer or otherwise; or
- (2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him; or
- (3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account; or
- (4) Shall willfully omit or refuse to pay over to the state, its officer or agent authorized by law to receive the same, or to such county, city, town, or such school, diking, drainage or irrigation district or to the proper officer or authority empowered to demand and receive the same, any money received by him as such officer when it is a duty imposed upon him by law to pay over and account for the same, shall be punished by imprisonment in the state penitentiary for not more than fifteen years.

The following internal control weaknesses allowed these losses to occur and not be detected by court officials in a timely manner.

- a. When the court implemented the DISCIS accounting system, it did not discontinue use of the Lawpak accounting system. Thus, the court maintained two computer systems, two cash receipts systems, and two bank accounts for court activity. However, as reported in our 1993 and 1994 audit reports, there are significant deficiencies in the Lawpak accounting system. For example, the system:
 - (1) Does not provide for an audit trail over the transactions deleted from the system.
 - (2) Has no accounts receivable control account; thus, there is no subsequent reconciliation of the subsidiary ledger and control account for this revenue activity.
 - (3) Has no records for noncash transactions authorized by the judge.

The above finding is a direct result of the court's failure to implement our previous recommendations to terminate the processing of all transactions on the Lawpak accounting system and to transfer fund accountability to the DISCIS accounting system. If the city continues to use the two accounting systems in the future, the risk remains high that additional fraudulent transactions and other irregularities may continue to occur in the Municipal Court.

- b. The court uses multiple cashiers on a single cash drawer. Thus, there will be no fixed responsibility for any losses which might occur during transaction processing.
- c. The court does not record mode of payment (i.e., by check or cash) on cash receipts processed in the Lawpak accounting system. Thus, it is difficult and costly to

determine whether the composition of the bank deposits agrees with the mode of payment for all cash receipt transactions processed in the Municipal Court.

- d. There was an inadequate segregation of duties when the court clerk also acted as a cashier.
- e. Bank statement reconciliation items were not promptly researched.
- f. Manual cash receipt forms were used for bail deposits rather than DISCIS accounting system receipts.
- g. There was a lack of supervisor review and monitoring of the court's operations.

We recommend the City of Walla Walla seek recovery of the misappropriated \$495 and related audit/investigation costs from their insurance bonding company. We further recommend the Washington State Office of the Attorney General and the Walla Walla County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for city employees is as follows:

Company:	Fidelity and Deposit Company of Maryland
Type:	City Blanket Bond) Employee Dishonesty
Number:	8680298-1
Amount:	\$20,000
Term:	June 7, 1990, to Present

We also recommend the City of Walla Walla Municipal Court:

- a. Terminate all transaction processing on the Lawpak accounting system and transfer fund accountability to the DISCIS accounting system.
- b. Review overall accounting controls, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

Auditee's Response

The judge agrees with the State Auditor's Office recommendations in regard to the implementation of proper procedures for checks and balances in order to avoid future problems. Most of the Auditor's recommendations have already been implemented. However, the Court is not in agreement with the Auditor's conclusion that moneys have been lost due to a fraudulent scheme. In regard to the specific charges, it is possible the loss resulted from a theft, but am more inclined to believe they resulted from either a clerical error, bank error, computer error, or simply the accidental loss of funds.

CITY OF WALLA WALLA
Walla Walla County, Washington
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. The Municipal Court Case File Maintenance System Should Be Improved

Resolution: See audit finding on continued use of the Lawpak system.

2. Accounting Controls Over Fixed Assets Should Be Improved

Resolution: The city hired an asset management firm to provide fixed assets accounting information. That data was being prepared for inclusion in the records as of the time of our audit in November 1996.

3. Internal Controls Over The Municipal Court Trust Account Should Be Improved

Resolution: The court made a transition to DISCIS in September 1995. DISCIS records facilitate reconciliation of the trust account.

4. The City Should Develop An Indirect Cost Allocation Plan To Provide Support For Amounts Billed By The Engineering Department

Resolution: The city director of public works revised the system. It will be audited during a future single audit.

CITY OF WALLA WALLA
Walla Walla County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

City Council
City of Walla Walla
Walla Walla, Washington

We have audited the accompanying general-purpose financial statements of the City of Walla Walla, Walla Walla County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Walla Walla, at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types and similar trust funds for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance and Schedule of Federal Financial Assistance listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

September 26, 1996